



The rise and rise of the township economy

With half of South Africa's population living in the estimated 532 townships around the country, vast potential lies in the so-called 'township economy'. According to Roger Wilco's [2022 Township CX Report](#), the vibrant, culture-rich township economy representing hundreds of billions of rands in spending power is largely untapped and misunderstood.

The total market value of the township economy is estimated to be R900 billion with approximately 60% of the market considered formal and 40% informal. Around R150 billion in cash is spent at the estimated 150 000 spaza shops every year, which contribute as much as 5.2% to South Africa's GDP and employ 2.6 million people.

Testimony to its potential, big retailers are seeking to tap into the township economy with big brands such as Pick n Pay, Checkers and MRP emulating the spaza shop model by offering smaller-format stores constructed from shipping containers in a bid to get closer to where its shoppers live. According to the report, the relationship between retailers and spaza shops is symbiotic, but spaza shops are increasingly competitive and are continuously upping their game technologically, resulting in growth of 29% last year. Township residents generally use spaza shops as convenience stores from which to buy immediate consumption needs such as bread and milk while large supermarkets are seen as destinations for the big monthly shop – largely due to prohibitive transport costs.

A difficult market to understand

However, a major barrier to entry is that brands find it challenging to understand and communicate with this market because of the lack of in-depth research and communication platforms available. 'Brands recognise the importance of tailoring their products and messages for the unique ecosystem developing in townships, but intelligence on this market is limited,' says Andrew Weinberg, Group CEO of fintech and customer engagement group AKELO. 'However, there are reliable means to both reach and learn more about this market. AKELO subsidiary, Retail Engage, runs [bonsella®](#), South Africa's largest digital rewards and loyalty programme in the independent retail sector, which targets over 10 million LSM 3-7 consumers and represents some 60% of the economically active consumer base in South Africa.'

The [bonsella](#) programme has grown to 2,1 million members and offers comprehensive basket analytics and unmatched customer behaviour insight, particularly in the informal and township economy. Because of our immersion and the level of trust we've established in this market, we also regularly undertake market research for our stores and clients, which leads to enhanced understanding of what motivates this market and how to market their brand,' says Weinberg.

Lack of financial infrastructure impeding growth

A significant challenge in townships is carrying cash due to safety concerns, yet there is increased utilisation of cash in the informal market, despite there being more than 80 million bank cards in circulation and a mobile penetration rate of 157%.

For informal merchants, one of the main hurdles is acceptance of electronic payments: a Mastercard study entitled [Insights into the Informal Economy Report](#) noted that while more than 50% of South Africa's informal enterprises had encountered strong customer interest in card payments, around 90% of them remain cash-only businesses. This loyalty to cash is often due to the lack of acquiring

infrastructure in the informal sector and, while cards are widely accepted in the formal market, this is not the case in the informal market.

Traditional acceptance channels, such as physical point-of-sale (POS) devices, are perceived as expensive, especially by micro enterprises. In fact, although rural and township residents were found to use cards for 60% of their transactions at formal retailers, only 4% of transactions were card-based at informal retailers.

Weinberg says that AKELO believes it has a key role to play in bringing financial services to the underserved. 'To this end, our subsidiary Efficacy Payments has been granted a designated clearing participant license by the South African Reserve Bank, which will be utilised to enable small and medium enterprises to accept electronic payments through innovative and accessible solutions. In the process, uplifting these communities through financial inclusion.'

Another important area of innovation, particularly in simplifying transactions in the informal economy, is the move towards instant payments. 'Instant payments are safer, more secure and more convenient than cash,' says Weinberg. 'Efficacy Payments' instant payments products enable immediate payments to card-linked accounts, providing a facility that's more efficient and often cheaper than EFT, in real-time and offering instant access to funds.'

It's clear that South Africa's township economy is on a trajectory to continue its exponential growth. Although it's a tough market to understand and reach, the potential is substantial and there are experienced companies and tried-and-tested systems in place that brands can leverage to take advantage of the myriad opportunities offered by this considerable portion of the South African market.

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Distributed on behalf of AKELO by:

Gillian Gernetzky, Percheron Strategic Communications
gillian@percheron.co.za | +27 82 892 8378
www.akelo.co | www.retailengage.co.za | www.bonsella.com